



14 November 2018

## **Future cooperation between the European Commission and the European Stability Mechanism**

The position set out below is agreed between the European Commission (EC) and the European Stability Mechanism (ESM), providing joint input for the December Euro Summit.

The European Commission and the European Stability Mechanism share common objectives and will exercise specific tasks in the context of crisis management for the euro area on the basis of European Union law (EU law) and the ESM Treaty. Therefore the two parties will work closely together on ESM crisis management measures with an efficient governance in pursuit of financial stability.

This note outlines joint proposals for the future cooperation between the two institutions in light of a further development of the ESM and taking into account the need to ensure full compliance with EU law as well as the longer-term goal of incorporating the ESM into the EU framework.

Work is continuing to agree on the division of labour with regard to the SRF backstop. A mutual agreement on transparency and accountability still needs to be prepared between the Commission and the ESM to be annexed to this text. This should be completed before the December Euro Summit.

### **1. COOPERATION OUTSIDE FINANCIAL ASSISTANCE**

Building further on the MoU agreed last April, the Commission and the ESM would meet informally to share assessments and analysis pertaining to their respective competences as well as to discuss and assess macro-financial risks.

When deemed useful and appropriate, the Commission, in agreement with the Member State concerned, invites ESM staff to join its missions related to economic policy coordination and budgetary monitoring.

### **2. ASSESSMENT OF ELIGIBILITY FOR PRECAUTIONARY CREDIT LINE**

Depending on the precise scope of eligibility criteria and/or conditionality still to be defined, the Commission and the ESM will assume their respective roles in line with EU law and the ESM Treaty and guidelines.

The Commission will be in charge of the overall assessment of the Member State's economic situation and policy track record in line with the applicable EU macro-economic and fiscal surveillance framework ( in particular SGP and MIP).

The ESM will assess market access of the Member State concerned and the risks thereto.

The debt sustainability analysis required to grant financial assistance will be provided as set out in section 3.1.

### **3. PREPARATION OF FINANCIAL ASSISTANCE**

When an ESM Member requests stability support, the Commission, (the ECB,) and the ESM will work closely together to prepare the decision in principle by the ESM Board of Governors, notably the assessment of the beneficiary Member State's debt sustainability, the assessment of the financial stability risks and the financing needs of the member requesting support. In particular, the Commission ensures consistency with the Union's economic policy coordination framework and measures adopted in that context. The ESM performs its analysis and assessment from the perspective of a lender.

#### **3.1. Assessment of the beneficiary's repayment capacity and debt sustainability analysis**

The Commission, (in liaison with the ECB,) and the ESM collaborate on the preparation of the assessments of public debt sustainability. The Commission will ensure full consistency with the EU surveillance framework.

For the preparation of the DSA, the Commission will work on the basis of its growth forecasts and estimates, existing stocks and stock-flow adjustments, net borrowings and fiscal path, incorporating also the Commission's assessment of compliance with current and anticipated SGP requirements.

The ESM will contribute to the DSA with the analysis of Member State's funding plans and cost of funding, which entails the assessment of the liquidity position, sovereign bond market and potential risks stemming therefrom, size and structure of outstanding debt, debt issuance plans of the MS (flows), interest rate developments, refinancing capacity/market access.

In case the collaboration does not yield a common view, the Commission will make the overall assessment of the sustainability of public debt, while the ESM will assess the capacity of the Member State concerned to repay ESM loans.

#### **3.2. Financing needs**

The Commission and the ESM will assess the financing gap and determine financing needs.

The Commission will provide projections for the budgetary path, other debt creating or reducing flows such as arrears clearance, privatisation proceeds and other country specific elements.

The ESM will notably focus on medium- and long-term debt redemption, size of cash buffers for short-term liquidity purposes and for easing market re-entry or maintaining market access at reasonable rates, risks to market funding and any technical liability management exercises planned or being conducted by the DMO.

### **3.3. Assessment of financial stability risks**

For the assessment of the financial stability risk, the ESM will contribute to the assessment by the Commission, in liaison with the ECB, from the perspective of sovereign bond markets and aspects related to sovereign financing.

## **4. NEGOTIATION OF CONDITIONALITY**

The Commission, (in liaison with the ECB,) and the ESM collaborate on the design and negotiation of policy conditionality. The collaboration should preserve the Commission and ECB institutional roles and prerogatives based on primary Union law and related acts of secondary Union law in the area of fiscal and multilateral surveillance and supervision and the ESM's role under the ESM Treaty. The Commission will continue to ensure full consistency of the MoU with any relevant measure under the economic policy coordination framework.

The Commission and the Managing Director of the ESM will sign the MoU detailing the conditionality.

The ESM will contribute from its perspective as a lender in areas, which are directly relevant for the beneficiary Member State's financing needs and ability to repay the ESM as well as the organisation and operational aspects of the funding of the Member State to help it restoring its financial situation and its refinancing capacity. This latter task pertains to the operational/practical/institutional organization of the debt management office (DMO), debt management strategy, technical assistance in relation to debt management when insufficient administrative capacity is identified.

Moreover, the Commission in close cooperation with the ESM will determine the goals and expected impact of reform measures in relation to the financing needs, return of the Member State to the markets and maintaining its repayment capacity. The Commission will, given its broad expertise, its role in the Union's economic policy coordination framework and its responsibility to ensure consistency with the Union's legal framework, design and negotiate individual measures to reach these goals.

The economic and budgetary goals of the MoU will reflect relevant measures adopted in the relevant Union policy fields, in particular of Union economic policy coordination. In forming its intentions, the Commission will take into account the views of the ESM.

## **5. MONITORING OF COMPLIANCE DURING A PROGRAMME**

The Commission in close cooperation with the ESM (, and in liaison with the ECB,) will monitor compliance of the beneficiary Member State with the implementation of the conditionality. The distribution of tasks and responsibilities would follow the same principles as described in section 4 above.

## **6. POST-PROGRAMME MONITORING**

The Commission has a well-defined role in post-programme surveillance pursuant to Article 14 of Regulation (EU) 472/2013. For the ESM, the main purpose of post-programme monitoring is to safeguard its balance sheets by assessing the ability of a beneficiary Member to repay. In accordance with the Early Warning System Procedure established pursuant to Article 13(6) of the ESM Treaty, this function starts with the first disbursement and continues until all financial assistance is fully repaid. The scope of the current Early Warning System (EWS) could be largely maintained.

In principle, post-programme surveillance missions and EWS missions are combined, to prevent unnecessary duplication of analysis by the Commission and the ESM and to avoid unnecessary burden on the relevant Member State.

## **7. INFORMATION SHARING**

Based on reciprocity, the Commission and the ESM will share data, analysis and assessments while respecting applicable Union law. Such activities should preserve the confidentiality obligations of both the Commission and the ESM as well as safeguard the ESM's funding activities.

## **8. REVIEW**

This document may be amended in the future, in particular when the ESM would become part of the Union legal framework, an aim fully shared by both the Commission and the ESM, or in view of other changes in EU law or the ESM legal framework.